

DIAGONAL COMMUNITY SCHOOL DISTRICT  
INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2006

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Diagonal Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education (Before September 2005 Election)</b>		
Monte Starlin	President	2005
Phil Mason	Vice President	2006
Melinda England	Board Member	2007
Becky Stamps	Board Member	2007
Pam Grace	Board Member	2005
<b>Board of Education (After September 2005 Election)</b>		
Melinda England	President	2007
Phil Mason	Vice President	2006
Becky Stamps	Board Member	2007
Monte Starlin	Board Member	2008
Pam Grace	Board Member	2008
<b>School Officials</b>		
Karleen Stephens	Superintendent	2006
Billie Jo Greene	District Secretary/ Treasurer	2006
Marion James	Attorney	2006

**NOLTE, CORNMAN & JOHNSON P.C.**  
**Certified Public Accountants**  
(a professional corporation)  
117 West 3rd Street North, Newton, Iowa 50208-3050  
Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the  
Diagonal Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Diagonal Community School District, Diagonal, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Diagonal Community School District at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated September 21, 2006 on our consideration of Diagonal Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 31 through 32 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board.

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We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Diagonal Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for three years ended June 30, 2004 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. The supplemental information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

  
NOLTE, CORNMAN & JOHNSON, P.C.

September 21, 2006

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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Diagonal Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **2006 FINANCIAL HIGHLIGHTS**

- General Fund revenues increased from \$1,868,221 in fiscal 2005 to \$1,972,298 in fiscal 2006, while General Fund expenditures increased from \$1,871,682 in fiscal 2005 to \$1,919,544 in fiscal 2006. This resulted in an increase in the District's General Fund balance from \$304,022 in fiscal 2005 to \$356,776 in fiscal 2006, a 17.35% increase from the prior year.
- The increase in General Fund revenues was attributable to an increase in local tax and other local sources revenue in fiscal 2006. The increase in expenditures was due primarily to an increase in instruction function.
- September 2005 Certified Enrollment count resulted in an increase of 10 students, representing a 9.30% increase compared to the prior year.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Diagonal Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Diagonal Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Diagonal Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds. In addition, the Schedule of Expenditures of Federal Awards provides detail of various programs benefiting the District.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

**Figure A-1**  
***Diagonal Community School District Annual Financial Report***

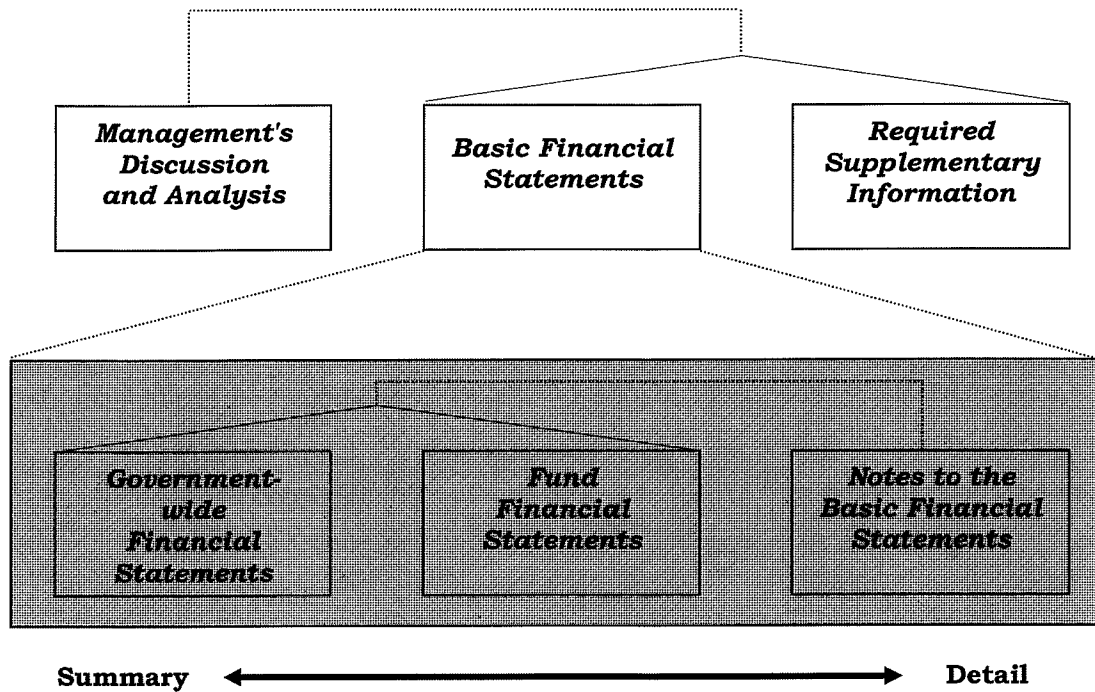


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

<b>Figure A-2 Major Features of the Government-wide and Fund Financial Statements</b>			
	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of Net Assets</li> <li>• Statement of revenues, expenses and changes in net assets</li> <li>• Statement of cash flows</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the



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District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

### **Fund Financial Statements**

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds and Capital Projects.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

Reconciliation between the government-wide financial statements and the fund financial statements follow the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2006 compare to June 30, 2006.

Figure A-3  
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Current and other assets	\$ 1,377,817	1,320,572	6,939	14,434	1,384,756	1,335,006	3.73%
Capital assets	262,757	245,648	8,826	10,161	271,583	255,809	6.17%
Total assets	1,640,574	1,566,220	15,765	24,595	1,656,339	1,590,815	4.12%
Other liabilities	781,637	828,238	373	5,378	782,010	833,616	-6.19%
Total liabilities	781,637	828,238	373	5,378	782,010	833,616	-6.19%
Net assets:							
Invested in capital assets, net of related debt	262,757	245,648	8,826	10,161	271,583	255,809	6.17%
Restricted	210,513	157,166	0	0	210,513	157,166	33.94%
Unrestricted	385,667	335,168	6,566	9,056	392,233	344,224	13.95%
Total net assets	\$ 858,937	737,982	15,392	19,217	874,329	757,199	15.47%

The District's combined net assets increased by 15.47% or \$117,130 over the prior year. A portion of the District's net assets is the invested in capital assets, less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The District's restricted net assets increased \$53,347 or 33.94% over the prior year. The increase was primarily due to the increase in the fund balance of the Capital Projects Fund.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraint established by debt covenants, enabling legislation, or the legal requirement - decreased \$48,009 or 13.95%. The increase was primarily due to the increase in the fund balance of the General Fund.

Figure A-4 shows the changes in net assets for the year ended June 30, 2006 compared to June 30, 2005.

Figure A-4  
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Revenues:							
Program revenues:							
Charges for services	\$ 231,947	152,209	22,499	24,275	254,446	176,484	44.18%
Operating grants and contributions and restricted interest	965,514	966,448	34,799	39,856	1,000,313	1,006,304	-0.60%
Capital grants and contributions and restricted interest	3,666	6,717	0	0	3,666	6,717	-45.42%
General revenues:							
Property tax	524,478	508,765	0	0	524,478	508,765	3.09%
Local option sales and service tax	38,579	35,246	0	0	38,579	35,246	9.46%
Unrestricted state grants	343,873	362,737	0	0	343,873	362,737	-5.20%
Other	47,668	7,149	9	41	47,677	7,190	563.10%
Total revenues	2,155,725	2,039,271	57,307	64,172	2,213,032	2,103,443	5.21%
Program expenses:							
Governmental activities:							
Instructional	1,544,282	1,561,598	0	0	1,544,282	1,561,598	-1.11%
Support services	426,790	394,217	0	0	426,790	394,217	8.26%
Non-instructional programs	0	0	61,132	65,045	61,132	65,045	-6.02%
Other expenses	63,698	63,592	0	0	63,698	63,592	0.17%
Total expenses	2,034,770	2,019,407	61,132	65,045	2,095,902	2,084,452	0.55%
Changes in net assets before capital contributions	120,955	19,864	(3,825)	(873)	117,130	18,991	516.77%
Capital contributions	0	0	0	7,191	0	7,191	-100.00%
Changes in net assets	120,955	19,864	(3,825)	6,318	117,130	26,182	347.37%
Net assets beginning of year	737,982	718,118	19,217	12,899	757,199	731,017	3.58%
Net assets end of year	\$ 858,937	737,982	15,392	19,217	874,329	757,199	15.47%

In fiscal 2006, property tax, local option sales and services tax and unrestricted state grants account for 42.07% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 99.98% of the revenue from business-type activities.

The District's total revenues were \$2,213,032 of which \$2,155,725 was for governmental activities and \$57,307 was for business-type activities.

As shown in Figure A-4, the District as a whole experienced a 5.21% increase in revenues and a .55% increase in expenses. Property tax increased by \$15,713 to fund increases in expenditures. The increases in expenses were related to increases in negotiated salary and benefits.

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## Governmental Activities

Revenues for governmental activities were \$2,155,725 and expenses were \$2,034,770.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses.

Figure A-5  
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2006	2005	Change 2005-06	2006	2005	Change 2005-06
Instruction	\$ 1,544,282	1,561,598	-1.11%	378,563	478,371	-20.86%
Support services	426,790	394,217	8.26%	426,790	394,217	8.26%
Other expenses	63,698	63,592	0.17%	28,290	21,445	31.92%
Totals	<u>\$ 2,034,770</u>	<u>2,019,407</u>	<u>0.76%</u>	<u>833,643</u>	<u>894,033</u>	<u>-6.75%</u>

- The cost financed by users of the District's programs was \$231,947.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$965,514.
- The net cost of governmental activities was financed with \$524,478 in local tax, \$38,579 in local option sales and service tax, \$343,873 in unrestricted state grants, \$26,822 in interest income and \$20,846 in other general revenues.

## Business-Type Activities

Revenues of the District's business-type activities were \$57,307 and expenses were \$61,132. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

## INDIVIDUAL FUND ANALYSIS

As previously noted, the Diagonal Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$560,292, above last year's ending fund balances of \$459,646. However, the primary reason for the increase was the increase in the fund balance of the Capital Projects Fund.

## Governmental Fund Highlights

- The District's General Fund balance increased from \$304,022 on June 30, 2005 to \$356,776 on June 30, 2006. The fluctuation in the District's General Fund financial position is the product of many factors. An increase in the local tax and other local source revenue during the year resulted in an increase in total revenues. The increase in expenditures was due to the increases in employee's salaries and benefits. Revenues exceeded expenditures ensuring the increase in the District's financial position.
- The Capital Projects fund balance increased from \$59,777 in 2005 to \$86,075 in 2006. This resulted from an increase in local option sales and service tax revenues received during the year and a decrease in expenditures.

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## Proprietary Fund Highlights

The School Nutrition Fund net assets decreased from \$19,217 at June 30, 2005 to \$15,392 at June 30, 2006, representing a decrease of 19.90%.

## BUDGETARY HIGHLIGHTS

The District's revenues were \$75,766 more than budgeted revenues, a variance of 3.55%. The most significant variance resulted from the District receiving more in local sources than originally anticipated.

Total expenditures were less than budgeted, primarily to the District's budget for the General Fund. It is not the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District's budget is developed utilizing realistic projections of revenues and expenditures. The district then manages or controls General Fund spending through its line-item budget. In situations where revenues exceed projections, and expenditures do not exceed spending authority, the Board may take action to amend the budget authorizing additional expenditures.

In spite of the District's budgetary practice, the certified budget was exceeded in the other expenditures function due to increased capital improvement expenditures without sufficient time to amend the certified budget.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2006, the District had invested \$271,583, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net increase of 6.17% from last year. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$40,879.

The original cost of the District's capital assets was \$1,071,073. Governmental funds account for \$1,037,188 with the remainder of \$33,885 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the land improvement category. The District's land improvements totaled \$43,277 at June 30, 2006, compared to \$22,205 reported at June 30, 2005. This increase resulted from the parking lot improvements made during the year.

Figure A-6

	Capital Assets, Net of Depreciation						
	Governmental		Business-type		Total		Total
	Activities		Activities		School District		Change
	2006	2005	2006	2005	2006	2005	2005-06
Land	\$ 7,230	7,230	0	0	7,230	7,230	0.00%
Buildings	152,095	162,499	0	0	152,095	162,499	-6.40%
Land improvements	43,277	22,205	0	0	43,277	22,205	94.90%
Machinery and equipment	60,155	53,714	8,826	10,161	68,981	63,875	7.99%
Total	\$ 262,757	245,648	8,826	10,161	271,583	255,809	6.17%

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### **Long-Term Debt**

At June 30, 2006, there was no long-term debt noted for the District.

### **ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE**

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- Low allowable growth over several years and enrollment decreases may negatively impact the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget. The district's cash balance will support short term funding shortfalls from the state.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.
- The District continues to receive Local Option Sales and Services Tax for School Infrastructure (SILO) from Ringgold County. This 1 cent tax on sales and services will greatly benefit the District in maintaining their buildings, purchasing equipment and debt repayment. The funding began in January 2005 and will continue through December 2013.

### **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Billie Jo Greene, District Board Secretary/Treasurer, Diagonal Community School District, 403 W 2<sup>nd</sup>, P.O. Box 94, Diagonal, Iowa, 50845-0094.

## BASIC FINANCIAL STATEMENTS

DIAGONAL COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2006

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and pooled investments:			
ISCAP(Note 3)	\$ 245,658	0	245,658
Other	539,870	5,261	545,131
Receivables:			
Property tax:			
Delinquent	8,864	0	8,864
Succeeding year	474,062	0	474,062
Income surtax	35,888	0	35,888
Accounts	5	0	5
Accrued ISCAP interest (Note 3)	76	0	76
Due from other governments	73,394	0	73,394
Inventories	0	1,678	1,678
Capital assets, net of accumulated depreciation (Note 4)	262,757	8,826	271,583
<b>TOTAL ASSETS</b>	<b>1,640,574</b>	<b>15,765</b>	<b>1,656,339</b>
<b>LIABILITIES</b>			
Accounts payable	36,836	0	36,836
Salaries and benefits payable	19,304	276	19,580
ISCAP warrants payable (Note 3)	246,000	0	246,000
ISCAP interest payable (Note 3)	63	0	63
ISCAP premiums payable	1,872	0	1,872
Deferred revenue:			
Succeeding year property tax	474,062	0	474,062
Other	3,500	0	3,500
Unearned revenue	0	97	97
<b>TOTAL LIABILITIES</b>	<b>781,637</b>	<b>373</b>	<b>782,010</b>
<b>NET ASSETS</b>			
Investment in capital assets, net of related debt	262,757	8,826	271,583
Restricted for:			
Talented and gifted	6,997	0	6,997
Capital projects	86,075	0	86,075
Management levy	18,198	0	18,198
Physical plant and equipment levy	70,836	0	70,836
Other special revenue purposes	28,407	0	28,407
Unrestricted	385,667	6,566	392,233
<b>TOTAL NET ASSETS</b>	<b>\$ 858,937</b>	<b>15,392</b>	<b>874,329</b>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.



DIAGONAL COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2006

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Contributions and Restricted Interest	Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	
Functions/Programs							
Governmental activities:							
Instruction:							
Regular instruction	\$ 778,415	179,531	924,187	0	325,303	0	325,303
Special instruction	161,538	0	5,919	3,666	(151,953)	0	(151,953)
Other instruction	604,329	52,416	0	0	(551,913)	0	(551,913)
	1,544,282	231,947	930,106	3,666	(378,563)	0	(378,563)
Support services:							
Instructional staff services	21,720	0	0	0	(21,720)	0	(21,720)
Administration services	200,702	0	0	0	(200,702)	0	(200,702)
Operation and maintenance of plant services	131,752	0	0	0	(131,752)	0	(131,752)
Transportation services	72,616	0	0	0	(72,616)	0	(72,616)
	426,790	0	0	0	(426,790)	0	(426,790)
Other expenditures:							
Facilities acquisitions	15,478	0	0	0	(15,478)	0	(15,478)
AEA flowthrough	35,408	0	35,408	0	0	0	0
Depreciation(unallocated)*	12,812	0	0	0	(12,812)	0	(12,812)
	63,698	0	35,408	0	(28,290)	0	(28,290)
Total governmental activities	2,034,770	231,947	965,514	3,666	(833,643)	0	(833,643)
Business-Type activities:							
Non-instructional programs:							
Nutrition services	61,132	22,499	34,799	0	0	(3,834)	(3,834)
Total business-type activities	61,132	22,499	34,799	0	0	(3,834)	(3,834)
Total	\$ 2,095,902	254,446	1,000,313	3,666	(833,643)	(3,834)	(837,477)
General Revenues:							
Local tax for:							
General purposes					\$ 475,934	0	475,934
Capital outlay					48,544	0	48,544
Local option sales and services tax					38,579	0	38,579
Unrestricted state grants					343,873	0	343,873
Unrestricted investment earnings					26,822	9	26,831
Other general revenues					20,846	0	20,846
Total general revenues					954,598	9	954,607
Changes in net assets					120,955	(3,825)	117,130
Net assets beginning of year					737,982	19,217	757,199
Net assets end of year					\$ 858,937	15,392	874,329

\* This amount excludes the depreciation that is included in the direct expense of various programs.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

DIAGONAL COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2006

	General	Capital Projects	Nonmajor Special Revenue Funds	Total
<b>ASSETS</b>				
Cash and pooled investments				
ISCAP(Note 3)	\$ 245,658	0	0	245,658
Other	350,024	73,974	115,872	539,870
Receivables:				
Property tax				
Delinquent	7,295	0	1,569	8,864
Succeeding year	386,263	0	87,799	474,062
Income surtax	35,888	0	0	35,888
Accounts	5	0	0	5
Accrued ISCAP interest(Note 3)	76	0	0	76
Due from other governments	61,293	12,101	0	73,394
<b>TOTAL ASSETS</b>	<b>\$ 1,086,502</b>	<b>86,075</b>	<b>205,240</b>	<b>1,377,817</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ 36,836	0	0	36,836
Salaries and benefits payable	19,304	0	0	19,304
ISCAP warrants payable(Note 3)	246,000	0	0	246,000
ISCAP interest payable(Note 3)	63	0	0	63
ISCAP premiums payable	1,872	0	0	1,872
Deferred revenue:				
Succeeding year property tax	386,263	0	87,799	474,062
Income surtax	35,888	0	0	35,888
Other	3,500	0	0	3,500
Total liabilities	729,726	0	87,799	817,525
Fund balances:				
Reserved for:				
Talented and gifted	6,997	0	0	6,997
Unreserved:				
Undesignated:				
General	349,779	0	0	349,779
Capital projects	0	86,075	0	86,075
Management levy	0	0	18,198	18,198
Physical plant and equipment levy	0	0	70,836	70,836
Other special revenue purposes	0	0	28,407	28,407
Total fund balances	356,776	86,075	117,441	560,292
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,086,502</b>	<b>86,075</b>	<b>205,240</b>	<b>1,377,817</b>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

DIAGONAL COMMUNITY SCHOOL DISTRICT  
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2006

**Total fund balances of governmental funds (page 15)** \$ 560,292

***Amounts reported for governmental activities in the  
statement of net assets are different because:***

Capital assets used in governmental activities are not  
financial resources and, therefore, are not report as  
assets in in the governmental funds. 262,757

Accounts receivable income surtax, are not yet available  
to finance expenditures of the current period. 35,888

**Net assets of governmental activites (page 13)** \$ 858,937

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

DIAGONAL COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2006

	General	Capital Projects	Nonmajor Special Revenue Funds	Total
<b>REVENUES:</b>				
Local sources:				
Local tax	\$ 437,378	38,579	83,900	559,857
Tuition	92,408	0	0	92,408
Other	333,993	4,573	53,175	391,741
State sources	594,677	0	0	594,677
Federal sources	513,842	0	0	513,842
Total revenues	1,972,298	43,152	137,075	2,152,525
<b>EXPENDITURES:</b>				
Current:				
Instruction:				
Regular instruction	775,912	0	13,916	789,828
Special instruction	161,538	0	0	161,538
Other instruction	561,076	0	42,741	603,817
	1,498,526	0	56,657	1,555,183
Support services:				
Instructional staff services	5,375	15,933	0	21,308
Administration services	200,702	0	0	200,702
Operation and maintenance of plant services	126,017	0	17,730	143,747
Transportation services	53,516	0	3,057	56,573
	385,610	15,933	20,787	422,330
Other expenditures:				
Facilities acquisitions	0	921	38,037	38,958
AEA flowthrough	35,408	0	0	35,408
	35,408	921	38,037	74,366
Total expenditures	1,919,544	16,854	115,481	2,051,879
Net change in fund balances	52,754	26,298	21,594	100,646
Fund balance beginning of year	304,022	59,777	95,847	459,646
Fund balance end of year	\$ 356,776	86,075	117,441	560,292

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

DIAGONAL COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 YEAR ENDED JUNE 30, 2006

Net change in fund balances - total governmental funds (page 17) \$ 100,646

*Amounts reported for governmental activities in the  
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Depreciation expense capital outlay expenditures and loss on disposal of capital in the current year are as follows:

Expenditures for capital assets	\$ 61,582	
Loss on disposal of capital assets	(4,929)	
Depreciation expense	<u>(39,544)</u>	17,109

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds.	<u>3,200</u>
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Changes in net assets of governmental activities (page 14)	<u><u>\$ 120,955</u></u>
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SEE NOTES TO BASIC FINANCIAL STATEMENTS.

DIAGONAL COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2006

	<u>School</u> <u>Nutrition</u>
ASSETS	
Cash and pooled investments	\$      5,261
Inventories	1,678
Capital assets, net of accumulated depreciation (Note 4)	<u>8,826</u>
TOTAL ASSETS	<u>15,765</u>
LIABILITIES	
Salaries and benefits payable	276
Unearned revenue	<u>97</u>
TOTAL LIABILITIES	<u>373</u>
NET ASSETS	
Investment in capital assets, net of related debt	8,826
Unrestricted	6,566
TOTAL NET ASSETS	<u>\$     15,392</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

DIAGONAL COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2006

	<u>School Nutrition</u>
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 22,499
TOTAL OPERATING REVENUES	<u>22,499</u>
OPERATING EXPENSES:	
Non-instructional programs:	
Food service operations:	
Salaries	20,434
Benefits	6,648
Supplies	32,715
Depreciation	1,335
TOTAL OPERATING EXPENSES	<u>61,132</u>
OPERATING LOSS	<u>(38,633)</u>
NON-OPERATING REVENUES:	
State sources	676
Federal sources	34,123
Interest income	9
TOTAL NON-OPERATING REVENUES	<u>34,808</u>
Change in net assets	(3,825)
Net assets beginning of year	<u>19,217</u>
Net assets end of year	<u>\$ 15,392</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

DIAGONAL COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2006

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 23,838
Cash payments to employees for services	(31,430)
Cash payments to suppliers for goods or services	(29,397)
Net cash used in operating activities	<u>(36,989)</u>
Cash flows from non-capital financing activities:	
State grants received	676
Federal grants received	31,364
Net cash provided by non-capital financing activities	<u>32,040</u>
Cash flows from investing activities:	
Interest on investments	9
Net cash provided by investing activities	<u>9</u>
Net decrease in cash and cash equivalents	(4,940)
Cash and cash equivalents at beginning of year	<u>10,201</u>
Cash and cash equivalents at end of year	<u><u>\$ 5,261</u></u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (38,633)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	2,759
Depreciation	1,335
Decrease in inventories	1,086
Decrease in accounts receivable	1,469
Decrease in accounts payable	(527)
Decrease in salaries and benefits payable	(4,348)
Decrease in unearned revenues	(130)
Net cash used in operating activities	<u><u>\$ (36,989)</u></u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	<u><u>\$ 5,261</u></u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2006, the District received Federal commodities valued at \$2,759.  
SEE NOTES TO BASIC FINANCIAL STATEMENTS.



DIAGONAL COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

(1) **Summary of Significant Accounting Policies**

The Diagonal Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Diagonal, Iowa, and the predominate agricultural territory in Ringgold County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Diagonal Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Diagonal Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Ringgold County Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Investment in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net asset* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District reports the following major proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. The School Nutrition Fund is used to account for the food service operations of the District.

### C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to

customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 500
Buildings	500
Land improvements	500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	500

Property, machinery and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-20 years

Salaries and Benefits Payable - Payroll and related expenditures for annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenue - Unearned revenues are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary, School Nutrition Fund.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

#### E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, expenditures in the other expenditures function exceeded the amount budgeted.

### (2) **Cash and Pooled Investments**

The District's deposits at June 30, 2006 were entirely covered by federal depository insurance or State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had investments in the Iowa Schools Joint Investment Trust as follows:

	Amortized Cost
Diversified Portfolio	\$ 212,842

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

**(3) Iowa School Cash Anticipation Program (ISCAP)**

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. These accounts are reflected as restricted assets on the balance sheet. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2006 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2006-07A	6/28/06	6/28/07	\$ 245,658	76	246,000	63

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts, and must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. No ISCAP advance activity in the General Fund was noted for the year ended June 30, 2006.

The warrants bear an interest rate and the available proceeds of the warrants are invested at an interest rate as shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2006-07A	4.500%	5.676%

**(4) Capital Assets**

Capital assets activity for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 7,230	0	0	7,230
Total capital assets not being depreciated	7,230	0	0	7,230
Capital assets being depreciated:				
Buildings	572,341	0	0	572,341
Land improvements	24,672	23,480	0	48,152
Machinery and equipment	382,863	38,102	11,500	409,465
Total capital assets being depreciated	979,876	61,582	11,500	1,029,958
Less accumulated depreciation for:				
Buildings	409,842	10,404	0	420,246
Land improvements	2,467	2,408	0	4,875
Machinery and equipment	329,149	26,732	6,571	349,310
Total accumulated depreciation	741,458	39,544	6,571	774,431
Total capital assets being depreciated, net	238,418	22,038	4,929	255,527
Governmental activities capital assets, net	\$ 245,648	22,038	4,929	262,757
	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 33,885	0	0	33,885
Less accumulated depreciation	23,724	1,335	0	25,059
Business-type activities capital assets, net	\$ 10,161	(1,335)	0	8,826

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 14,694
Other	512
Support services:	
Instructional staff	412
Transportation	11,114
	26,732
Unallocated depreciation	12,812
Total governmental activities depreciation expense	\$ 39,544
Business-type activities:	
Food services	\$ 1,335
Total business-type activities depreciation expense	\$ 1,335



**(5) Pension and Retirement Benefits**

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005 and 2004. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$73,411, \$65,495 and \$69,846 respectively, equal to the required contributions for each year.

**(6) Risk Management**

Diagonal Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(7) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$35,408 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**(8) Budget Overexpenditure**

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2006, expenditures in the other expenditures function exceeded the amount budgeted.

REQUIRED SUPPLEMENTARY INFORMATION

DIAGONAL COMMUNITY SCHOOL DISTRICT  
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND  
CHANGES IN BALANCES -  
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS  
AND PROPRIETARY FUNDS  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2006

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
Revenues:						
Local sources	\$ 1,044,006	22,508	1,066,514	696,872	696,872	369,642
State sources	594,677	676	595,353	592,531	592,531	2,822
Federal sources	513,842	34,123	547,965	844,663	844,663	(296,698)
Total revenues	2,152,525	57,307	2,209,832	2,134,066	2,134,066	75,766
Expenditures:						
Instruction	1,555,183	0	1,555,183	1,824,987	1,824,987	269,804
Support services	422,330	0	422,330	483,913	483,913	61,583
Non-instructional programs	0	61,132	61,132	95,155	95,155	34,023
Other expenditures	74,366	0	74,366	46,328	46,328	(28,038)
Total expenditures	2,051,879	61,132	2,113,011	2,450,383	2,450,383	337,372
Excess(deficiency) of receipts over(under) disbursements	100,646	(3,825)	96,821	(316,317)	(316,317)	413,138
Balance beginning of year	459,646	19,217	478,863	476,682	476,682	2,181
Balance end of year	\$ 560,292	15,392	575,684	160,365	160,365	415,319

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

DIAGONAL COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparison for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2006, expenditures in the other expenditures function exceeded the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

DIAGONAL COMMUNITY SCHOOL DISTRICT  
COMBINING BALANCE SHEET  
NONMAJOR SPECIAL REVENUE FUNDS  
JUNE 30, 2006

	Nonmajor Special Revenue Funds			
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds
ASSETS				
Cash and pooled investments	\$ 17,537	28,407	69,928	115,872
Receivables:				
Property tax:				
Delinquent	661	0	908	1,569
Succeeding year property tax	40,000	0	47,799	87,799
TOTAL ASSETS	\$ 58,198	28,407	118,635	205,240
LIABILITIES AND FUND EQUITY				
Liabilities:				
Deferred revenue:				
Succeeding year property tax	\$ 40,000	0	47,799	87,799
	40,000	0	47,799	87,799
Fund equity:				
Fund balances:				
Unreserved, undesignated	18,198	28,407	70,836	117,441
	18,198	28,407	70,836	117,441
TOTAL LIABILITIES AND FUND EQUITY	\$ 58,198	28,407	118,635	205,240

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

DIAGONAL COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 NONMAJOR SPECIAL REVENUE FUNDS  
 YEAR ENDED JUNE 30, 2006

	Nonmajor Special Revenue Funds			
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds
REVENUES:				
Local sources:				
Local tax	\$ 35,356	0	48,544	83,900
Other	0	52,416	759	53,175
TOTAL REVENUES	35,356	52,416	49,303	137,075
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	13,916	0	0	13,916
Other instruction	0	42,741	0	42,741
Support services:				
Operation and maintenance of plant services	17,730	0	0	17,730
Transportation services	3,057	0	0	3,057
Other expenditures:				
Facilities acquisition	0	0	38,037	38,037
TOTAL EXPENDITURES	34,703	42,741	38,037	115,481
Net change in fund balances	653	9,675	11,266	21,594
Fund balance beginning of year	17,545	18,732	59,570	95,847
Fund balance end of year	\$ 18,198	28,407	70,836	117,441

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

DIAGONAL COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
 YEAR ENDED JUNE 30, 2006

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Athletics	\$ 5,471	7,880	8,982	4,369
Concessions	4,384	10,867	6,108	9,143
Class of 2005	150	19	150	19
Class of 2006	1,935	3,376	4,929	382
Class of 2007	376	11,077	7,724	3,729
Annual	2,815	2,300	2,929	2,186
Drama	728	1,768	1,286	1,210
Music	(178)	808	357	273
Industrial Arts	235	0	235	0
Student Council	134	184	299	19
Bookrent	39	0	39	0
Other	1,970	6,004	6,180	1,794
Dekko KS	0	4,687	3,403	1,284
2005 Dekko	271	2,946	120	3,097
Memorial	402	500	0	902
	<u>\$ 18,732</u>	<u>52,416</u>	<u>42,741</u>	<u>28,407</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.



DIAGONAL COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION  
 ALL GOVERNMENTAL FUND TYPES  
 FOR THE LAST FOUR YEARS

		Modified Accrual Basis			
		Years Ended June 30,			
		2006	2005	2004	2003
Revenues:					
Local sources:					
Local tax	\$	559,857	546,400	544,656	479,041
Tuition		92,408	67,507	51,087	63,622
Other		391,741	91,851	126,058	128,314
State sources		594,677	660,783	548,636	576,442
Federal sources		513,842	675,119	681,393	706,855
Total	\$	2,152,525	2,041,660	1,951,830	1,954,274
Expenditures:					
Current:					
Instruction:					
Regular instruction	\$	789,828	699,770	1,108,158	1,175,371
Special instruction		161,538	280,114	256,790	230,952
Other instruction		603,817	589,192	87,919	76,823
Support services:					
Student services		0	7,702	0	1,765
Instructional staff services		21,308	2,285	8,197	11,168
Administration services		200,702	210,383	167,842	162,787
Operation and maintenance of plant services		143,747	141,915	193,348	137,459
Transportation services		56,573	37,790	42,674	46,104
Non-instructional programs		0	0	36,781	29,874
Other expenditures:					
Facilities acquisitions		38,958	16,495	0	0
Long-term debt:					
Principal		0	893	15,706	15,761
Interest and fiscal charges		0	30	1,550	1,495
AEA flow-through		35,408	35,430	35,560	38,980
Total	\$	2,051,879	2,021,999	1,954,525	1,928,539

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

DIAGONAL COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2006

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
DIRECT:			
DEPARTMENT OF EDUCATION:			
FUND FOR THE IMPROVEMENT OF EDUCATION	84.215	FY 06	\$ 365,112
RURAL EDUCATION ACHIEVEMENT PROGRAM(REAP)	84.358	FY 06	31,257
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
FOOD DONATION	10.550	FY 06	2,759
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 06	5,442
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 06	22,408
SUMMER FOOD SERVICE PROGRAM FOR CHILDREN	10.559	FY 06	3,514
			31,364
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	1782-G	33,389
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - STATE GRANTS	84.186	FY 06	1,205
INNOVATIVE EDUCATION PROGRAM STRATEGIES(TITLE V PROGRAM)	84.298	FY 06	388
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM	84.367	FY 06	7,420
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES(TITLE VI A)	84.369	FY 06	564
SCHOOL RENOVATION, IDEA AND TECHNOLOGY GRANTS PROGRAM	84.352	FY 06	3,666
CLEARFIELD COMMUNITY SCHOOL DISTRICT:			
READING FIRST STATE GRANTS	84.357	FY 06	16,921

DIAGONAL COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 YEAR ENDED JUNE 30, 2006

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT (CONTINUED) :			
AREA EDUCATION AGENCY:			
SPECIAL EDUCATION - GRANTS TO STATES (PART B)	84.027	FY 06	<u>5,919</u>
SPECIAL EDUCATION - GRANTS TO STATES (SUCCESS 4)	84.027	FY 06	<u>4,286</u>
DEPARTMENT OF HUMAN SERVICES:			
CHILD CARE DEVELOPMENT BLOCK GRANTS			
WRAP AROUND GRANT	93.575	FY 05	2,099
CHILD CARE DEVELOPMENT BLOCK GRANTS			
WRAP AROUND GRANT	93.575	FY 06	<u>48,000</u>
			<u>50,099</u>
TOTAL			<u>\$ 554,349</u>

**Basis of Presentation** - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Diagonal Community School District and is presented in conformity with the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

**NOLTE, CORNMAN & JOHNSON P.C.**  
**Certified Public Accountants**  
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Independent Auditor's Report on Internal Control over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial Statements Performed in  
Accordance with Government Auditing Standards

To the Board of Education of the  
Diagonal Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Diagonal Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated September 21, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Diagonal Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items II-A-06 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Diagonal Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain

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immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Diagonal Community School District and other parties to Diagonal Community School District may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Diagonal Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

  
NOLTE, CORNMAN & JOHNSON, P.C.

September 21, 2006

**NOLTE, CORNMAN & JOHNSON P.C.**  
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Independent Auditor's Report on Compliance with Requirements Applicable  
to Each Major Program and Internal Control over Compliance  
in Accordance with OMB Circular A-133

To the Board of Education of  
Diagonal Community School District

Compliance

We have audited the compliance of Diagonal Community School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. Diagonal Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants agreements applicable to each of its major federal programs is the responsibility of Diagonal Community School District's management. Our responsibility is to express an opinion on Diagonal Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Diagonal Community School District's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Diagonal Community School District's compliance with those requirements.

In our opinion, Diagonal Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Diagonal Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Diagonal Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a matter involving the internal control over compliance and its operations that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention

relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Diagonal Community School District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grant agreements. The reportable condition is described as item III-A-06 in the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts, and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item III-A-06 is a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Diagonal Community School District and other parties to whom Diagonal Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

  
NOLTE, CORNMAN & JOHNSON, P.C.

September 21, 2006

DIAGONAL COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2006

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) Reportable conditions in internal control over major programs were disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major program was as follows:
  - Individual
    - CFDA Number 84.215 - Fund for the Improvement of Education
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Diagonal Community School District did not qualify as a low-risk auditee.



DIAGONAL COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2006

Part II: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

II-A-06 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

II-B-06 Check Signatures - We noted during our audit instances of signatures other than the Board Secretary and Board President on District's checks. Chapter 291.1 of the Code of Iowa requires two signatures on all checks, one being the Board President and the other being the Board Secretary. The Board President may designate a person to sign on his or her behalf.

Recommendation - The District should review their procedures and make the necessary changes to assure two authorized signatures on all checks, the Board Secretary and Board President or designee.

Response - We will review procedures and implement changes to comply with this recommendation.

Conclusion - Response accepted.

II-C-06 Student Activity Fund - We noted during our audit of the Student Activity Fund that the District has Dekko accounts. These accounts would appear to be more appropriately handled in the General Fund. The District should also close the Class of 2005 account.

Recommendation - The District should review the transactions in there accounts and make necessary transfers to provide that transactions are recorded in the proper fund. The District needs to close past class accounts upon graduation.

Response - We will make the necessary changes.

Conclusion - Response accepted.

II-D-06 Cash Given to Students - We noted during our audit of the Student Activity Fund that the District gave cash to students for the Senior Class Trip. We also noted during our audit that students were given cash as prize money as part of fundraising.

Recommendation - The District should document who receives cash when going on trips. The District should have a list of who received the cash and the amount. The students should sign off upon receiving cash for the trip. The District should review procedures in place and implement controls to ensure documentation is gathered to support the check written for cash needed for the trip.

Cash should not be given to students as fundraising prizes. The vendor supporting the District's fundraiser should issue checks to the students for the cash prizes. The District should not give cash as prizes.

Response - We will review procedures in place and refrain from giving cash to students.

Conclusion - Response accepted.

II-E-06 Timely Deposits - We noted during our audit that deposits for the Special Revenue, Student Activity Fund and School Nutrition were prepared but may not be taken to the bank for deposit until several days later.

Recommendation - All receipts should be deposited when received. The district should review procedures to ensure that the deposits are made timely.

Response - Deposits are being made when funds are received.

Conclusion - Response accepted.

II-F-06 Photo Image Checks - We noted during our audit that District receives their checks from the bank as photo images showing only the front of the checks. Per Chapter 544D.114 of the Code of Iowa, the District is required to have retained both the front and back of check images.

Recommendation - The District should contact the bank to rectify the situation. The District should receive the photo images showing both the front and back of the checks or the original issued check.

Response - We have contacted the bank and will start receiving the fronts and backs of all checks.

Conclusion - Response accepted.

DIAGONAL COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2006

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

CFDA Number 84.215 - Fund for the Improvement of Education

Federal Award Year: 2006

U.S. Department of Education

III-A-06 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

DIAGONAL COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2006

Part IV: Other Findings Related to Statutory Reporting

IV-A-06 Certified Budget - District expenditures for the year ended June 30, 2006 exceeded the amount budgeted in the other expenditures function.

Recommendation - The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.

Response - We will amend the budget if necessary in the future.

Conclusion - Response accepted.

IV-B-06 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-C-06 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

IV-D-06 Business Transactions - No business transactions between the District and District officials were noted.

IV-E-06 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-F-06 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

II-G-06 Certified Enrollment - We noted a variance in the basic enrollment data certified to the Department of Education. The number of resident students were overstated by one student.

Recommendation - The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.

Response - We will contact the Iowa Department of Education and the Department of Management.

Conclusion - Response accepted.

IV-H-06 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy. However, we did note that the District was not receiving the proper interest rate, set by the State Rate Setting Committee, on their Certificates of Deposit.

Recommendation - The District should contact the appropriate bank and rectify the situation.

Response - The financial institution where the certificate of deposit was purchased was contacted and the rate of interest was corrected.

Conclusion - Response accepted.

IV-I-06 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.